

RECREATION AND PARK DEPARTMENT:

Concession Audit of
Lincoln Park Golf Course
January 1, 2002, Through
December 31, 2004

DOCUMENTS DEPT.

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CITY AND COUNTY OF SAN FRANCISCO

**OFFICE OF THE CONTROLLER
FINANCIAL AUDITS DIVISION**

**Ed Harrington
Controller**

**Monique Zmuda
Deputy Controller**

May 26, 2006

Audit Number 04031

Recreation and Park Commission
McLaren Lodge
501 Stanyan Street
San Francisco, CA 94117

President and Members:

The Office of the Controller presents its report concerning the concession audit of the Lincoln Park Golf Course (Lincoln Park Golf), which is owned by the City and County of San Francisco. Under the requirements of a 1983 lease, and under the direction of the general manager of the Recreation and Park Department (department), Yugi Golf Management LLC (Yugi) provides and supervises all golf activities at Lincoln Park Golf. Yugi is to remit all green fees to the department. In addition, Yugi operates a golf professional shop (pro shop) and a restaurant and bar. Yugi pays the greater of an annual minimum rent or a percentage of the receipts from these operations.

Reporting Period: January 1, 2002, through December 31, 2004

Green Fees and Rent Paid:

Green Fees	\$3,170,221
Rent Paid	\$236,754

Results:

Although Yugi remitted to the department all the green fees it recorded receiving, we identified several instances in which Yugi could improve its accounting for green fees by consistently doing the following:

- Maintain and retain adequate records for tournaments played.
- Remit green fees daily to the department as required by the lease.
- Record the resident card numbers for the players on the daily tee time sheets.
- Charge the \$1 reservation fee when players reserve tee times using the department's automated reservation system.

In accounting for its restaurant and bar and pro shop revenues, Yugi had several shortcomings, including the following:

- Not having any records to support \$424,241 in restaurant and bar sales for the entire three-year audit period.
- Poorly accounting for credit card transactions in the pro shop.
- Not paying the annual minimum rent payment when due. As a result, Yugi owes the department \$17,917 in minimum rent and \$40,894 in late fees, as of June 30, 2005.

Yugi's and the department's responses are attached to this report. The Controller's Financial Audits Division will be working with the department to follow up on the status of the recommendations.

Respectfully submitted,

A handwritten signature in black ink, appearing to be 'Noriaki Hirasuna', with a long horizontal flourish extending to the right.

Noriaki Hirasuna
Director

INTRODUCTION

BACKGROUND

Lincoln Park Golf Course (Lincoln Park Golf), which is owned by the City and County of San Francisco (City), is an 18-hole golf course located at 34th Avenue at Clement Street in San Francisco. Yugi Golf Management LLC (Yugi) operates the golf course under a lease dated April 22, 1983 with the City's Recreation and Park Department (department). Yugi assumed operations of Lincoln Park Golf by agreeing to an assignment of the lease from the former operator of Lincoln Park Golf effective March 1, 2001. The current term of the lease with Yugi is on a month-to-month basis, and can be canceled by either party with sufficient notice.

The lease requires Yugi to:

- Collect green fees and deposit those fees to the department's designated bank account.
- Provide and supervise golf starter and player activities at the Lincoln Park Golf under the direction of the department's general manager.¹
- Renew resident cards, which allow residents of San Francisco or Pacifica to play at discounted rates at the city-owned golf courses at Lincoln Park, Harding Park, Fleming Park, Sharp Park, and Golden Gate Park.²
- Collect a \$1 automated reservation fee from players who use the department's automated telephone reservation system.

The lease allows Yugi to:

- Operate a golf professional shop (pro shop).
- Operate a restaurant and bar.

To operate these concessions, the department requires Yugi to pay the greater of a minimum annual rent or a percentage rent of the sales from the pro shop and restaurant and bar.

¹ Golf starter activities include registering players, collecting and safeguarding green fees and reservation fees, preparing and submitting accounting reports and providing marshals to enforce golf rules and regulations.

² Starting July 1, 2002, Yugi was no longer required to renew resident cards. The cards can now only be obtained at the City's Office of the Treasurer and Tax Collector.

SCOPE AND METHODOLOGY

The purpose of the audit was to determine whether Yugi complied with the reporting and payment provisions of its lease with the department. To conduct the audit, we reviewed:

- Applicable provisions of the lease.
- Yugi's procedures for recording, summarizing, and reporting green fees and gross revenues from its business operations.
- Yugi's monthly green fee reports and monthly rent payment statements that it submitted to the department.

To determine whether Yugi correctly reported and remitted green fees, we recalculated the amount due to the department, and did the following:

- Tested, on a sample basis, Yugi's monthly green fee reports, daily tee time sheets, and cash register reports.
- Tested Yugi's daily tee time sheets to determine also whether Yugi correctly collected the \$1 automated reservation fees.

To determine whether Yugi correctly reported its gross revenues from its pro shop, we did the following:

- Tested, on a sample basis, Yugi's monthly and daily sales reports and cash register reports.
- Compared the gross revenues reported by Yugi to the department with the sales Yugi reported to the California Board of Equalization and to Yugi's financial statements for the audit period.
- Reviewed Yugi's payment records maintained by the department to determine if Yugi paid its rent on a timely basis.

Yugi did not provide any records to support the gross revenues it reported from the operations of the restaurant and bar. Therefore, we were not able to determine whether rents paid for this business are correct during the audit period.

AUDIT RESULTS

YUGI CORRECTLY REMITTED GREEN FEES BUT NEEDS TO IMPROVE ITS ACCOUNTING FOR GREEN FEES

From January 1, 2002, through December 31, 2004, Yugi Golf Management LLC (Yugi) collected and remitted to the Recreation and Park Department (department) \$3,170,221 in green fees. Table 1 shows the total green fees Yugi remitted for the three-year audit period.

TABLE 1

Green Fees Collected and Remitted
January 1, 2002, Through December 31, 2004

	Green Fees
January 1, 2002, through December 31, 2002	\$1,137,250
January 1, 2003, through December 31, 2003	1,180,824
January 1, 2004, through December 31, 2004 (a)	852,147
Total	\$3,170,221

(a) The decline in green fees in 2004 of approximately \$300,000, according to Yugi's principal owner and also to the department's property manager, can be attributed to the reopening of Harding Park Golf Course. Both also indicated that there has been an overall decline in golf play throughout the industry.

Although our tests showed that Yugi correctly remitted to the department the green fees Yugi recorded it collected for the period we reviewed, we identified several areas in which Yugi can make improvements in accounting for its green fees. We found that Yugi did not:

- Retain all records of tournaments.
- Remit green fees daily as required by the lease.
- Record resident card numbers on daily time sheets when giving cardholders discounted rates.
- Charge and collect the \$1 reservation fee for players using the department's automated reservation system.

Retain Records for Tournaments Held At Lincoln Park Golf Course

Yugi did not adequately account for the tournaments it held at Lincoln Park Golf Course (Lincoln Park Golf) and the fees paid by the players who participated in the tournaments. The department received \$99,274 in revenues that Yugi reported collecting as tournament fees during the three-year audit period. However, Yugi could not provide us the log books he maintained for the tournaments. These records would have enabled us to verify whether Yugi charged the correct rates for the tournaments since a fee is charged for each player participating in the tournament. Initially, Yugi also did not provide us any other records when we asked for them. However, after the end of our fieldwork and after we had provided a draft copy of this report to Yugi, Yugi's owner and accountant provided us copies of 14 tournament contracts for calendar year 2004, which listed the guaranteed amounts collectible, and a reconciliation of the contracts to the amounts actually collected.

The reconciliation revealed that Yugi had charged and collected fees for 10 other tournaments for which no contracts had been provided to us. Although not required by the department, tournament contracts are a good business practice because they provide a record of the agreement between the two parties, the provisions of the agreement, and the guaranteed amount to be collected by Yugi. However, although the tournament contract specifies that payment is required for the guaranteed number of players not cancelled 30 days prior to the event, the reconciliation showed that of the 14 contracts provided to us, Yugi charged green fees for less than the guaranteed number of players for 9 of those contracts. For example, for three contracts Yugi charged for 20, 24 and 32 less players than the guaranteed number of players on the contracts without any indication on the contracts that the guaranteed number of players had been reduced.

Yugi still did not have any records for the remaining audit period of 24 months where he reported collecting more than \$51,416. According to a statement by Yugi's former partner, he had possession of all the tournament records, but except for the contracts provided to us, had lost all the other records. Further, according to Yugi's owner, all the information for tournaments held in 2004 was stolen from his head golf professional's car.

Further, we found that for some tournaments Yugi did not charge the players the correct rates for playing in the tournaments. For

example, players participating in the San Francisco City Championship, which is held at Lincoln and Harding Park Golf Courses in February and March of each year, are to be charged \$36 during the weekdays and \$44 during weekends, for the period from July 1, 2002, through June 30, 2003. However, we found that Yugi charged players only \$23, which is the resident weekend rate, for the tournament held in February and March 2003. According to the department's property manager, he believes the department may have agreed to the \$23 rate but could not find documentation to support this.

Further, Yugi charged some participants who belong to the Lincoln Park Men's Club only the \$23 resident weekend rate or \$34 non-resident weekend rate for their tournaments. According to Yugi's principal owner, these organizations were active prior to the start of tournament rates and therefore, there was an understanding that these organizations need not pay the tournament rates. According to the department's property manager, the department is aware of this situation and has been working with the department's Commission and various organizations that do not pay tournament rates to establish standards and policies.

Finally, Yugi charged the non-resident rate of \$35, instead of the tournament rate of \$45, for two tournaments held in 2004 because a marathon or a bike race blocked the golf course during these tournaments. The department's property manager could not recall if Yugi advised him of these instances, but in either event neither Yugi nor the department has the right to reduce tournament prices set and approved by the department's commission.

Remit Green Fees Daily As Required by Its Lease

Yugi remitted its daily green fees late in 16 of the 27 days (59 percent) we tested. The department requires Yugi to remit to the department green fees collected at Lincoln Park Golf on a daily basis. Green fees collected from Monday through Thursday are to be remitted on the following day, and fees collected on Friday through Sunday are to be remitted on the following Monday. However, our tests revealed that Yugi remitted its green fees from 1 to 7 days late in the 16 instances we identified.

Although for the instances we identified, the amount of interest lost is immaterial it is important that Yugi makes daily deposits to prevent any lost interest. Further, the department is paying an

armored car service to collect the green fees from Yugi each weekday. Yugi's principal owner told us that deposits are not made on a daily basis because deposit slips can only be prepared by a manager and, at times, there is not always a manager on duty every morning when the armored car service arrives to collect the green fees.

Record Golf Resident Card Numbers When Giving Discounted Green Fees

The department allows residents of San Francisco to play at Lincoln Park Golf, as well as at other city golf courses, at discounted rates if they hold resident cards.³ To ensure that only San Francisco resident cardholders are given discounted rates, the department requires Yugi to check for a valid resident card and verify it online. If a resident makes a reservation through the automated system, the resident's name is automatically recognized as a legal resident and the name is printed out on the daily tee time sheet. However, the department does not require Yugi to record the resident card numbers on the daily tee time sheets for residents who do not use the automated system. As a result, we could not easily verify whether the discounts given by Yugi to these residents were given to bona fide resident cardholders. Although Yugi records the first name of the players on the daily tee time sheets, without the last name, or the resident card numbers, we could not ascertain whether these players had resident cards.

According to Yugi's principal owner, he did not record the resident card number on the daily time sheets because the department's daily tee time sheets do not provide sufficient space to record a player's resident card number. Yugi records the player's name, green fee rate, and cash register transaction number on the daily tee time sheets.

³ As of July 1, 2003, the annual fee for a resident card is \$40. The green fee discounts given to cardholders vary among the golf courses, by the type of player, and by the day of play. For the audit period from January 1, 2002, through December 31, 2004, the discounts given at Lincoln Park Golf ranged from \$8 to \$11 for a round of golf. During this period, nonresident rates ranged from \$23 to \$35.

Charge and Collect the Automated Reservation Fee

Yugi did not collect the \$1 automated reservation fee from players who used the department's automated telephone tee time reservation system during the three-year audit period. The department requires Yugi to collect the fee when players used the system to reserve tee times. The automated reservation system allows a caller to reserve a tee time seven days in advance for San Francisco resident card holders and six days in advance for all other players. A caller may reserve a tee time for up to four players at five of the City's six golf courses. According to the department's property manager, approximately 500 reservations per month were processed through the automated system, for Lincoln Park Golf, during the audit period.

According to Yugi's principal owner, he did not collect the fee because players complained about being charged the fee since the automated reservation system does not indicate there will be a \$1 fee for using the reservation system. When we placed a call to the automated reservation system, we noted that at the beginning of the automated directions for using the system, callers are informed that prices on the reservation system are incorrect and the department is currently working to update the information on the automatic phone system. The callers are told to go to the department's website for updated pricing information or to call the golf courses directly. When we listened to the green fee rates on the reservation system, it did not mention the \$1 reservation fee. However, the reservation system does inform the caller to check with the department's website for updated green fee rates.

YUGI NEEDS TO IMPROVE ACCOUNTING FOR SALES FROM ITS RESTAURANT AND PRO SHOP

For the period from January 1, 2002, through December 31, 2004, Yugi reported \$1,575,103 in gross revenues from the operations of its pro shop and the restaurant and bar, and paid \$236,754 in rent to the department. Table 2 shows Yugi's reported gross revenues and rent paid for the three-year audit period.

TABLE 2

**Reported Gross Revenues and Rent Paid
January 1, 2002, Through December 31, 2004**

	Gross Revenues	Rent Paid
January 1, 2002, through December 31, 2002	\$623,635	\$91,326
January 1, 2003, through December 31, 2003	545,759	82,341
January 1, 2004, through December 31, 2004	405,709	63,087
Total	\$1,575,103	\$236,754

However, Yugi did not meet its minimum rent requirements during the audit period. We also noted that Yugi made some errors in reporting its gross revenues for the pro shop. Further, we were unable to verify cash collections, cash overages or shortages, some gift certificates that were redeemed, and some green fee revenues that were paid through credit card charges. Finally, we were also unable to audit the revenues from the operation of the restaurant and bar because Yugi could not provide any supporting records.

Yugi Did Not Have Records to Support the Revenues It Reported for Its Restaurant and Bar

Although Yugi reported gross revenues of \$424,241, and paid rent of \$28,891 for operating the restaurant and bar for the three-year audit period, Yugi could not provide any records to support its reported revenues. Yugi could not provide us cash register tapes or order slips to provide additional documentation that Yugi correctly reported the revenues from its restaurant and bar. As a result, we cannot make any assurances whether Yugi correctly paid its rent.

For operating the restaurant and bar at Lincoln Park Golf, the lease requires Yugi to pay the greater of a minimum annual rent of \$16,747 or a percentage rent. The monthly percentage rent consists of 6 percent of food sales, 8 percent of alcoholic beverage and banquet sales, and 10 percent of room rentals. According to the department's property manager, three separate individuals operated the restaurant and bar during the audit period.

Further, according to the department's property manager, the department had not been aware of Yugi's first independent contractor until the time the department assigned the lease to Yugi at the Commission meeting on March 20, 2001. Also, Yugi failed

to inform the department that Yugi had subleased the operations of the restaurant and bar to a second independent contractor. The department was not made aware of this second independent contractor until the legal action came to the department's attention. According to Yugi's lease agreement, it cannot subcontract any of the operations without formal approval by the department's Commission.

Yugi Needs to Improve Its Pro Shop Business Practices

Yugi exhibited poor business practices in accounting for pro shop sales.⁴ We reviewed Yugi's revenue reports for 9 of the 36 months under audit. Although Yugi reported revenues for most days of the months, we noted that Yugi often reported it did not collect any cash during a day, but only had credit card sales. For the nine months we reviewed, Yugi reported it did not collect any cash in 192 of the 270 days (71 percent). When we asked Yugi during our fieldwork whether it was reasonable for a retail shop not to have collected any cash for so many days, Yugi could not provide us any comprehensible explanation. It was only after we had completed our fieldwork and provided a draft of this report to Yugi, that he and his representatives provided an explanation. According to Yugi, he used the daily cash proceeds from the pro shop to add to the cash green fees he was to remit to the department. This was because Yugi allows players to pay green fees by credit card if the player also makes a purchase from the pro shop. Notwithstanding that the department does not specifically allow Yugi to accept green fees via credit cards, Yugi did not adequately distinguish the green fees transactions from the pro shop business transactions.

We were thus not able to verify cash collections for the pro shop revenues, including any overages or shortages. Yugi reported collecting \$46,469 in revenues from its operations for the 27 days we tested in the audit period. Of that total, we were unable to vouch \$3,459 in cash collections and \$541 in cash overages to any supporting documents, such as cash register tapes and bank

⁴ For operating the pro shop, the lease requires Yugi to pay the greater of a minimum annual rent of \$62,800 or a percentage rent. The monthly percentage rent consists of 5 percent of merchandise sales from the pro shop, 15 percent from golf lessons and instruction fees, rentals of golf clubs and practice balls, 20 percent of the first \$50,000, and 25 percent of the excess of \$50,000 from rentals of golf carts.

statements. According to Yugi's principal owner, all pro shop transactions, including the sale of equipment and lessons, are entered on the cash register; however, the register does not allow Yugi to differentiate between cash or credit card transactions. Therefore, the register tape does not show the amount of cash sales and the amount charged by credit cards. Since Yugi's credit card machine is also used to account for green fee transactions, the credit card tape does not show the amount that was collected just for pro shop purchases. Although we attempted to verify cash collections through deposits shown on Yugi's bank statements, we could not match the deposits to each day's cash collections because Yugi did not always deposit collections on a daily basis.

In addition, from our sample testing of 27 days, we were unable to verify gift certificates that were redeemed in six of the days, totaling \$640. According to Yugi's principal owner, when gift certificates are redeemed, Yugi records the amounts as a special code on its cash register. However, we did not find any entries using the special code. Yugi does not recall the reasons for these errors in reporting.

Further, when we reviewed the revenue reports for the pro shop, we found that the credit card amount that is allocated to green fees is based on the remaining amount not entered as cash, credit card and gift certificate tenders. Therefore, we were not able to verify \$9,717 in credit card revenues allocated for green fees from our sample of 27 days when cash, cash overages/shortages or gift certificates are unverifiable.

Yugi also overpaid its pro shop rent by \$1,223 during the audit period. According to the lease, Yugi should deduct any taxes collected from patrons to arrive at the gross revenues subject to percentage rent. However, in reviewing Yugi's revenue reports and sales tax returns filed with the State Board of Equalization, Yugi did not reduce its gross revenues by the amount of tax it collected, and as a result, overpaid its rent for the three years we reviewed.

Yugi Did Not Pay the Minimum Rent Required by Its Lease

Yugi did not pay the minimum rent due for the three years we audited, and owes the department \$17,917 in minimum rent (\$618 for pro shop and \$28,076 for restaurant, less \$10,777 paid subsequent to our audit period). Yugi also owes \$40,894 in late fees for a total of \$58,811, as of December 31, 2004. According to

the lease, if the annual minimum rent is due, any deficiency must be made up on or before the 10th day of the month immediately following the close of the fiscal year. Further, 15 percent interest will be assessed each month on late payments.⁵ The annual minimum rent is assessed on a fiscal year basis.

Yugi did not pay its minimum rent because it failed to reconcile the percentage rents it paid each month to the annual minimum rent requirements for the pro shop and restaurant and bar. Yugi last performed a reconciliation of the rent due on January 14, 2003, for fiscal years 2000-01 and 2001-02. However, Yugi's reconciliation did not account for the interest that was owed due to its minimum rent payment being six months late. Table 3 shows the rental payments and late fees owed for each fiscal year of the audit period ending December 31, 2004.

TABLE 3

**Minimum Rent Payments for Pro Shop and Restaurant and Bar
January 1, 2002, Through December 31, 2004**

	Rent Paid	Minimum Rent Due	Additional Rent Due	Interest Due
Pro Shop				
July 1, 2001, through June 30, 2002 (a)	\$80,771	\$62,800	\$0	\$0
July 1, 2002, through June 30, 2003	75,970	62,800	0	0
July 1, 2003, through June 30, 2004	65,434	62,800	0	0
July 1, 2004, through December 31, 2004 (b)	30,782	31,400	618	0
Pro Shop Totals	\$252,957	\$219,800	\$618	\$0
Restaurant and Bar				
July 1, 2001, through June 30, 2002 (a)	\$ 4,214	\$16,747	\$12,533	(c)\$18,919
July 1, 2002, through June 30, 2003	14,925	16,747	1,822	6,558
July 1, 2003, through June 30, 2004	8,182	16,747	8,565	15,417
July 1, 2004, through December 31, 2004 (b)	3,218	8,374	5,156	0
Restaurant and Bar Totals	\$30,539	\$58,615	\$28,076	\$40,894

- (a) Although our audit period starts on January 1, 2002, we present rent payment information for fiscal year 2001-02 because minimum rent payments are calculated on a fiscal year basis.
- (b) Our audit period ends on December 31, 2004, and we present payment information for the six-month period from July 1, 2004, through December 31, 2004.
- (c) Yugi paid \$10,777 of the amount due shortly after the end of the fiscal year. The interest due is calculated on the remaining unpaid amount, \$1,756.

⁵ We discussed this rate with the department and its city attorney, and both agreed that while the interest rate is high, the lease is legally binding and Yugi is subject to all lease terms by having accepted the assignment of the lease without requesting any changes in the lease provisions.

Because the annual minimum rent payments are calculated on a fiscal year basis, we calculated the minimum rent due from July 1, 2001, the six-month period before the beginning of the audit period through the end of that fiscal year, June 30, 2002. As of December 31, 2004, the \$5,774 in additional rent payment is not yet due to the department.

RECOMMENDATIONS

We recommend that the Recreation and Park Department take the following actions to ensure that Yugi Golf Management, LLC meets all department requirements to operate Lincoln Park Golf Course:

- Require Yugi to retain all records of the tournaments it hosts, including log books, tournament contracts, and any other records Yugi receives related to the tournaments.
- Require Yugi to maintain sufficient detailed records, such as players' names and rates charged, on the tee time sheets, or on other documents, to allow the department to verify that Yugi is correctly remitting tournament fees to the department.
- Develop written policies and procedures for Yugi, as well as other city golf course operators, to follow in keeping records of tournaments held at the courses.
- Require Yugi to remit all green fees on a daily basis as required by the lease, or any other schedule the department finds reasonable and prudent.
- Redesign the daily tee time sheet to allow space for recording resident card numbers, and any other information the department requires.
- Require Yugi to record resident card numbers for all players receiving a discount on the daily tee time sheets.
- Update the automated telephone reservation system with correct green fee rates and specifically indicate there is a \$1 reservation fee for using the reservation system and that the fee will be collected at the golf courses.
- Require Yugi to charge a player the \$1 reservation fee if the player reserved tee time using the automated telephone reservation system.

- Require Yugi to retain all of its accounting records in accordance with the lease assignment and instruct Yugi on the importance of maintaining its records in a secure place.
- Because of the complete lack of records for the restaurant and bar operations, the department may wish to consider requiring Yugi to have an independent financial audit conducted each year of its business operations for the pro shop and restaurant and bar.
- Inform Yugi whether the department will allow it to continue accepting green fees payments via credit card. If allowable, the department should establish procedures for the prompt remittance of those revenues.
- Require Yugi to improve accounting for all transactions at the pro shop, including cash collections, any overages or shortages, redemption of gift certificates, and credit card transactions, including green fees.
- Require Yugi to pay \$58,811 in rental and late fees for not meeting the minimum annual rental requirements. In addition, the department should require Yugi to submit a reconconciliation of the minimum annual rent annually after the end of the fiscal year.
- Determine whether it should credit Yugi \$1,223 in overpaid rent.
- Remind Yugi that any person contracted by Yugi to operate any part of the lease, such as the restaurant and bar, must first be approved by the department's Commission. In addition, Yugi is ultimately responsible for providing documents in support of revenues reported to the department.

We conducted this review according to the standards established by the Institute of Internal Auditors. We limited our review to those areas specified in the audit scope section of this report.

Staff: Helen Vo

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RECREATION AND PARK DEPARTMENT RESPONSE TO THE AUDIT:



City and County of San Francisco
Recreation and Park Department

McLaren Lodge in Golden Gate Park

501 Stanyan Street, San Francisco, CA 94117

TEL: 415.831.2700 FAX: 415.831.2035 WEB: <http://parks.sfgov.org>

May 16, 2006

Mr. Noriaki Hirasuna
Director, Financial Audits Division
Office of the Controller
City Hall, Suite 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4694

Dear Mr. Hirasuna:

On April 20, 2006 the Recreation and Park Commission, through its Resolution #0604-007, approved the staff report and presentation concerning the audit of Yugi Golf Management at Lincoln Park Golf Course conducted by your office.

Please include this letter with previously submitted materials from our office as the Department response to your findings and recommendations.

Thank you, Elisa and Helen for your work, professionalism and patience throughout this long and often difficult process.

Sincerely,


Tom Hart
Property Manager

cc: Margaret McArthur, Commission Liaison
Katharine Petrucione, Director of Administration and Finance
Jaci Fong, Director of Property



Minister of the City and County of San Francisco
Office of the Mayor



March 24, 2006

Mr. Lance Wong
Yugi Golf Management, LLC
300 34th Avenue
San Francisco, CA 94121

Dear Lance

In preparation for the public discussion of the findings in the recently completed audit, I want to review suggestions that have been made during meetings and share with you additional information concerning some of the items.

Tournaments

Although the most blatant point of the finding was the loss of the log books due to theft, I would like to see your current or a modified template to be used for all tournaments by April 20, 2006. The same format, instructions and expectations should be applied equally to all tournaments booked and handled by your company. All documents regarding tournaments from booking to actual play must be retained in a safe secure place.

Tee Sheets

As we have discussed, a new tee sheet is forthcoming. However, until that time it is imperative to record the Resident Card number on the tee sheet to satisfy this audit finding.

Armored Car Service

I have investigated the service at other courses and was told that the pickups always occur within a 2-hour (at most) timeframe. I understand your concern over security, but you really need to either be there or leave the bag with a trusted employee. We are reluctant to change the schedule or the format for pickup at this time. The armored car service charges us for the pickup and you need to make arrangements to be there or have someone else in authority to be available.

Reservation Fee

I sent you a new sign on Department letterhead advising customers of the standing policy (since 1995) for charging an additional \$1.00 for each reservation made through the IVR. Please make sure you clearly account for the additional money on your recap sheet sent to accounting each month. As I have mentioned, the IVR announcement now includes a message advising the public of this fee. A notation has also been made on the Department web site and instruction for obtaining a Resident Card have been edited to include this information as well.

Records Retention

I want to reiterate the importance of securing all records and sales transactions. It is a requirement of the ~~lease~~ Section 12 to be precise, that all records be maintained and easily accessible for audits.



Maria Elena Newman
General Manager, Yoni Aguniaside

Credit Cards

I want to suggest that you contact Wayne Kauppi at Golden Gate and think about getting the "cashless ATM" he has. It works quite well and operates by giving his account credit as it debits the customer's account. There are no credit card fees assessed to him and, in fact, he receives a small cash credit for each transaction. This would solve the problem of the City not accepting credit cards and would certainly eliminate the possibility of customers walking away.

Pro Shop and Restaurant Transactions

I suggest that you have your accountant review your daily cash handling and procedures to better advise you as to how your operations can be improved. I realize extraneous circumstances in the restaurant operation accounted for much of this difficulty but, since the annual minimums in your lease are divided between pro shop and restaurant, the two "businesses" should be accounted for separately.

Restaurant Operations

I would like to again to remind you that you are required to have any subcontractor agreements approved by the Commission. It is specifically stated so in your lease in Section 46. I need to know, in writing, by April 7, 2006 if the bar and restaurant are open and operating along with the hours. I have been told it is open, but the three times I have been to the course in the past few weeks, it was closed. I need to know what the regular hours are and who is in charge of operating it. Additionally, I need to see copies of all current inspection certificates for health and safety and others required by law for operating a restaurant.

Signage

I have already mentioned the \$1.00 reservation sign. You may want to redesign the existing sign referring to receipts to include a phrase advising customers to ask for a receipt. That seems to be a point made in other audits as well. I have seen your large sign with all rates posted. It would also be appropriate to work the other signage requirements onto that board, if you choose.

If you have any questions or concerns about the above, please call me immediately, Lance.

Sincerely,


Tom Hart
Property Manager

cc: Katharine Petrucione, Director of Finance
Jaci Fong, Director of Property

AUDIT RECOMMENDATION	ACTION / COMMENTS
1. Require Yugi to retain all records of the tournaments it hosts, including log books, tournament contracts, and any other records Yugi receives related to the tournaments.	A staff letter dated March 24, 2006 addressed this issue and quoted the specific section in their lease that requires this.
2. Require Yugi to maintain sufficient detailed records, such as players' names and rates charged, on the tee time sheets, or on other documents, to allow the department to verify that Yugi is correctly remitting tournament fees to the department.	Staff has advised Yugi to present a template that will be used for tournaments no later than April 20, 2006
3. Develop written policies and procedures for Yugi, as well as other city golf course operators, to follow in keeping records of tournaments hosted by the courses.	Staff will research and prepare general guidelines as an item for the Commission addressing this to standardize practices but to also allow individual operators to respond to the needs and demands of the individual courses.
4. Require Yugi to remit all greens fees on a daily basis as required by the lease, or any other schedule the department finds reasonable and prudent.	Staff advised Yugi to always have a responsible party available during the possible 2-hour window for armored car pick up.
5. Redesign the daily tee time sheet to allow space for recording resident card numbers, and any other information the department requires.	The current IVR system will not allow us to customize the format tee sheet. The new IVR system will be able to satisfy this requirement and should be in place within the year.
6. Require Yugi to record resident card numbers for all players receiving a discount on the daily tee time sheets.	Staff directed Yugi to do this in the March 24, 2006 letter.
7. Update the automated telephone reservation system with correct greens fee rates and specifically indicate there is a \$1 reservation fee for using the reservation system and that the fee will be collected at the golf courses.	The system has been updated, as well as the Department web site and the instruction sheet for obtaining a golf resident card.
8. Require Yugi to charge a player the \$1 reservation fee if the player reserved tee time using the automated telephone reservation system	Staff has, once again, reiterated this policy (in place since 1995) and has provided Yugi with a sign stating such.

9. Instruct Yugi on the importance of maintaining in a secure place all its records.	Staff stressed this point in the March 24, 2006 letter.
10. Because of the complete lack of records for the restaurant and bar operations, the department may wish to consider requiring Yugi to have an independent financial audit conducted each year of its business operations for the pro shop and restaurant and bar.	As this is a month-to-month agreement, this recommendation is not practical. However, this point may be addressed by staff in future agreements.
11. Inform Yugi whether the department will allow it to continue accepting greens fees payments via credit card. If allowable, the department should establish procedures for the prompt remittance of those revenues.	An alternative was suggested in the March 24, 2006 letter using a "cashless" ATM similar to that utilized at Golden Gate Park Golf Course.
12. Require Yugi to improve accounting for all transactions at the pro shop, including cash collections, any overages or shortages, redemption of gift certificates, and credit card transactions, including greens fees.	Staff has recommended that Yugi's CPA conduct an overview of daily cash operations and offer suggestions to better coordinate all business functions.
13. Require Yugi to pay \$58,811 in rental and late fees for not meeting the minimum annual rental requirements. In addition, the department should require Yugi to submit a reconciliation of the minimum annual rent annually after the end of the fiscal year.	If approved by the Commission, staff recommends changing the 15% interest penalty to 10% annually, the current maximum allowable by law per the City Attorney.
14. Determine whether it should credit Yugi \$1,223 in overpaid rent due to calculating rent based on gross revenues not net of taxes, despite not having adequate records.	It is possible for this amount to be deducted from the amount owed the Department
15. Remind Yugi that any person contracted by Yugi to operate any part of the lease, such as the restaurant and bar, must first be approved by the Commission. In addition, Yugi is ultimately responsible for providing supporting documents to the Department	This was pointed out in the March 26, 2006 letter to Yugi, referencing Section 46 of the original lease.

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YUGI GOLF MANAGEMENT RESPONSE TO THE AUDIT:

March 16, 2006

Mr. Noriaki Hirasuna
Director
Financial Audits Division
City Hall Room 476
1 Dr. Carleton B. Goodlett Place
San Francisco, California 94102

Dear Mr. Hirasuna:

Please find attached Yugi Golf Management's (YGM) response to the Final Draft Audit report concerning the concession at Lincoln Park. This response was prepared without the benefit of a review of the Department of Recreation and Parks response which was not included in the material given to YGM.

Policy makers rely on audits because they are objective reports based on facts and a thorough analysis of the financial conditions using fair and impartial language. This draft audit fails these tests. Unfortunately, this audit is not thorough, contains several misstatements and half truths and uses biased language in its description of the concession. Further, the audit uses weak methodologies, relies on incomplete tests, and generally lacks the attention to detail that is normally a hallmark of the Department.

One of the first standards established by the Institute of Internal Auditors is that auditors seek an understanding of the business to make certain that misstatements are not made because the business was not understood. The department should have taken more care to understand the operations at Lincoln Park before making many of the statements contained in the report.

YGM officially objects to the final draft audit report because we believe that it does not accurately reflect the financial operations of the concession. *

Sincerely,

Lance Wong
Yugi Golf Management

* Controller's Financial Audits Division's comments on this response begin on page 33.

Yugi Golf Management Response

Recreation and Park Department
Concession Audit of Lincoln Park Golf Course
January 1, 2002 through December 31, 2004
Prepared by the Financial Audits Division
Office of the Controller
City Services Auditor
City and County of San Francisco
March 10, 2006 (04031)

Cover Letter Results:

The Financial Audits Division includes several results which begin with the statement "Although Yugi remitted to the department all the green fees it recorded receiving, we identified several instances in which Yugi *could* improve its accounting for green fees by consistently doing the following:" (emphasis added)

- YGM agrees that improvements can be made. All businesses can improve its operations. These results, however, seem to imply that YGM does not currently account for all green fees. This is simply not true. YGM records all green fees and remits those fees to the City.
- YGM agrees that "shortcomings" existed in the accounting for its restaurant and bar revenues. We object to the following:

1. *"Not having any records to support \$424,241 in restaurant and bar sales for the entire three-year audit period."*

YGM maintains records which were given to the auditor. The auditor determined that such records were not sufficient. It is misleading to state that YGM did not have any records. ①

2. *"Poorly accounting for credit card transactions in the pro shop"*

YGM does not accept that credit card transactions are poorly accounted for but rather the auditor doesn't understand how transactions are handled. One should not use the word "poorly" simply because the auditor does not understand the business. ②

3. *"Not paying the annual minimum rent due".*

As of the date of this audit, all rents have been paid. There are mitigating circumstances which the report fails to discuss. Further the auditor calculates late fees based on a formula contained in a Memorandum of Understanding created in 1986 and attached to the original lease created in 1982. The penalty clauses contained in those documents do not reflect current Recreation and Parks department policies and may be considered usurious and not legal. ③

The Report:

Scope and Methodology (page 2, last paragraph)

- The audit reports states that *"Yugi did not provide any records to support the gross revenues it reported from the operations of the restaurant and bar"*. This is incorrect. YGM provided records which the auditor did not feel were complete.

Audit Results

YGM notes that the Audit results states the *"Yugi correctly remitted green fees but needs to improve its accounting for Greens fees"* (page 3, first paragraph)

- As stated earlier, improvements can always be made.

Retain records for tournaments held at Lincoln Park Golf Course (page3, heading)

The audit report states that no log books were available so consequently the auditor was not able to verify if correct rates were charged.

- The auditor seems to misunderstand the relationship between tournament log books and rates charged for players participating in golf tournaments. Log books are prospective recordings to schedule potential tournaments. Rates charged for players are duly recorded on tee sheets and in accordance with tournaments rates. Log books have little relevance to rates. ④

The audit report states that *"YGM charged and collected fees for 10 other tournaments for which no contracts had been provided to us"* (page 4, paragraph 2). The report further states that *"Yugi charged green fees for less than the guaranteed number of players for 9 of those contracts"*

- First, Lincoln Park is not over utilized. If in fact an organization wants to book a tournament at the last minute, YGM usually tries to accommodate the organization if tee times are available. Usually, these tournaments are booked without a contract, given the short notice, and charged tournament rates, which increases revenues to the city. Tournament rates have higher green fees. YGM could have not charged tournament rates because no contracts existed but rather YGM reported, recorded and charged tournament rates because that was the proper action to take. The audit report fails to take note of the increased revenues.
- Secondly, the audit suggests that YGM did not collect for the all players noted on contracts. Clearly, the auditor does not recognize that competition for players and revenue is high among golf courses throughout the Bay Area. YGM makes allowances for organizations if it cannot fulfill the number of players contracted for in order to secure current and future business. In the examples cited by the

auditor, those tournaments were for the FBI, St. Ignatius Reunion and UPS, all groups that YGM hoped would continue to use Lincoln for tournaments in the future. In addition, several tournaments faced weather and other course conditions which reduced the number of players attending which YGM accommodated in order to secure potential future return business. YGM took positive rather than punitive actions to foster better customer relations. YGM did on several occasions allow for more players than stated in the tournament contract, a fact that the auditor ignored.

⑤

The audit report states that “Yngi did not charge the players correct rates for playing in tournaments” (page 4, last paragraph).

- This is simply misleading. YGM charges correct rates for tournaments unless there are special circumstances. The two examples cited in the audit report are for tournaments where the rates were established by the Department of Recreation and Parks.
- On occasion, in order to increase business and to establish good customer service, YGM has charged reduce rates for tournaments when there are mitigating circumstances as mentioned in the report. The fact remains that Lincoln is under utilized. Every effort to increase play should be acknowledged.

⑥

Remit Green Fees daily as required by its Lease (page

- The audit report notes that green fees were remitted late. The report fails to note that the Armored Car service is irregular and pick ups do not occur. Only the General Manager is allowed to remit cash for security purposes. The Armored Car service schedule and erratic pick up times is a major factor. YGM has no way to review the findings mentioned in the report because we do not know which 27 days were tested or the circumstances for those days.

⑦

Record Golf Resident Card Numbers When Giving Discounted Green Fees (page 6, heading)

- The report is accurate that the Recreation and Parks Department does not require YGM to record the resident card numbers on the daily tee time sheets. YGM verifies resident cards, confiscates expired cards and charges correct rates. The audit suggests that YGM may not charge correct rates. This is misleading and not true. To improve the recording of resident card numbers, the City should consider installing a scanner which is in place at Harding Park Golf course, which would allow YGM to simply run resident cards through a scanner.

Charge and Collect the Automated Reservation Fee (page 6, heading)

- The report is accurate that YGM has not collected the \$1 dollar automated reservation fee from players using the department's automated telephone tee time since rates were changed at Lincoln Park. First, the automated reservation system when it was updated, fails to note or inform players that such a fee will be charged. Second, updated rates sheets provided to YGM did not mention the collection of a reservation fee. Third, Lincoln Park is, as stated earlier, under utilized. Players who object to paying the \$1 reservation fee could simply leave and come back and play as a walk on thus avoiding the \$1 fee. The City, first needs to properly inform users that such a fee will be collected. Second, review this policy to determine whether or not \$1 should be added to all green fees regardless of how the reservation is made, particularly at courses such as Lincoln which is underplayed. YGM's first objective is to collect maximum revenue. YGM does not turn players away.
- Finally, the audit report references the department's website for information regarding the reservation fee and green fee rates. The website is managed thru the City's website, SFGov, and one has to migrate thru several steps. Noted in a small corner of the description of rates is a notice of the \$1 reservation fee in light blue, barely noticeable. First, most golfers do not take the time to migrate thru these several steps nor would they necessarily take notice of the reservation fee statement. YGM recommends that the City review this policy, processes, and notification to users and implement a system that removes any ambiguity.

Yugi needs to improve accounting for sales from its Restaurant and Pro Shop (section heading, page 7)

First, YGM agrees that improvements are always necessary and important. YGM objects however to the tone and misstatements in this section.

The audit reports states that "*Yugi did not have records to support the revenues it reported for its restaurant and Bar*" (page 8, heading paragraph two)

- YGM provided records to support revenues. It is true that cash register tapes were not available; however sales records were made available. YGM did have problems associated with the restaurant and bar which was managed at various times by different individuals, two full partners in YGM and one food and beverage manager. None of these individuals operated as subcontractors. (8)
- Food and beverage operations were included in the assignment when YGM took over from the Arnold Palmer Golf Corporation to simplify the assignment. Previously, food and beverage operations were separate entities. From the beginning, restaurant operations had problems. First, after the assignment in March of 2001, YGM did not have access to the kitchen for over 9 months due to renovations that were required by the Public Health Department. During that time,

YGM continued to pay rent despite the fact that the kitchen was essentially closed. The loss of revenue and other management issues associated with the first partner in charge of the restaurant and bar operations caused YGM to seek another partner to replace the original partner. The second partner also encountered revenue issues and also did not satisfactorily maintain adequate records. YGM replaced that partner with a food and beverage manager under the supervision of YGM. The food and beverage manager did not perform as expected. YGM terminated that relationship.

- Part of the problem was proper record keeping of all sales. YGM continued to pay minimum rent for the restaurant and bar and tested its payments against reported sales and other audit measures. For example, YGM ran a comparison of rounds played versus revenue from previous years for the restaurant and bar to ensure that sales reports were reasonably accurate. Based on these analyses, YGM is reasonably confident that sales reports are accurate. Declining rounds at Lincoln led to declining sales at the restaurant and bar. The audit could have run a similar analysis to test whether or not sales reported were accurate and reasonable. In fact, YGM believes that the minimum rent paid exceeded the amount due if calculated on a percentage of sales, the alternative method to determine rent payment for the restaurant and bar operations.

⑨

The audit report states that “Yugi needs to improve its pro shop business practices” (page 9 heading)

- YGM objects to the tone and language in this section. The fact is that the auditor did not understand YGM operations nor the processes used. One should not conclude that the business practice is poor based on not understanding the processes.
- The city provides the cash register to YGM for green fees. The City programs the keys and makes the decisions on what each key represents and for what type of entry. The register is out dated and limited. YGM is forced to work around this antiquated system.
- Since the City does not allow players to use credit cards for green fees at Lincoln Park, YGM makes available that service to accommodate player needs. At Lincoln as opposed to Harding Park, the city insists that all green fees be paid in cash. When players do not have cash available, YGM allows the players to use their credit cards to pay for green fees and for example rent a cart or make a purchase from the pro shop. YGM maintains two separate registers, one records all green fees collected and the other is for all pro shop or other transactions. Every green fee is entered on the green fee register. YGM knows how many green fees were collected because the register is used exclusively for green fees and reconciled daily. YGM through its reconciliation can identify the number of credit card transactions for green fees based on a simple review of tapes. YGM reconciles all credit card transactions for green fees and remits to the city a check for the amount due on a monthly basis. This process has been in place for many years. In fact, YGM paid over \$970,000 in credit card transactions for green fees

to the City for the period of the audit. None of the credit card fees incurred by YGM were charged to the city. If the city would allow green fees to be paid using a credit card, this issue would disappear.

- Secondly, because YGM knows that cash on hand sometimes is a security risk, YGM chooses to collect all cash from all sources and remits to the city regardless whether the cash was collected from a purchase at the pro shop or from green fees. In that way, the city gets paid first. The auditor questions why YGM did not report any cash from the pro shop. The answer is simple; cash was collected and remitted to the city.
- YGM does not need to identify green fee transactions on its second register, because all green fees are entered on the first register. Green fees are not recorded on the second register because it is not necessary. YGM reconciles its books using tapes from the register for green fees and tee sheets to determine how much money it needs to remit to the city for credit card green fee transactions. The auditor simply does not understand these processes.
- Since YGM has not had an opportunity to review the auditor's sample 27 dates, we cannot verify the auditor's findings. A simple review of the tapes and the dates in question with our accountant would most likely clarify this issue.
- Finally, even though YGM has stated that sales taxes have not been included in arriving at gross revenues subject to percentage rents, the audit report continues to state the YGM included such numbers and asserts that YGM over paid its rent for the three years reviewed. YGM believes that it should receive a credit for that amount.

10

Yugi did not pay the Minimum Rent required by its lease (section heading, page 10)

The audit report finds that YGM did not pay \$28,076 in minimum rent due for the restaurant, bar and pro shop operations. In fact, as of December 31, 2005 all payments have been made.

- First, YGM paid more than the minimum rent due for the pro shop for the period covered by the audit by over \$33,000.
- Second, YGM paid the city \$10,777 of the amount identified in 2003 as noted in the audit report footnote. YGM reconciled its books at the end of the calendar year and remitted that amount to the city based on YGM's review that \$1756 had been overpaid during the previous year. The city accepted payment and YGM did not hear from the city, the department or anyone representing the city that \$1756 remained due. Had YGM been informed that that amount was due, YGM certainly would have made arrangements to remit such small amount. The audit report identifies the shortage and now assesses interest of \$18,919. First the formula applied is egregious and could be considered usurious and based on stipulations in a Memorandum of Understanding dated 1986. Second, such interest calculations do not reflect current department policies. Third, the audit report uses interest and late fees interchangeably. Late fees and interest are two different concepts, the latter regulated by law. The original 1982 lease states that

the city “may assess a late charge at the maximum annual interest rate allowed by law for the period of time which the payment is late...” The subsequent Memorandum of Understanding effective February 20, 1986 states that a “late charge of 15% of the balance due will be charged for any payments ...” which the audit report correctly states. In both cases, late charges are identified as possible actions not interest.

- YGM’s accounting office has contacted the department of Recreation and Parks on numerous occasions concerning this matter. The department has allowed YGM to make payments late. The department has never mentioned late fees, charges or interest. In fact, as stated earlier, all payments have been made as of December 31, 2005. Now, the auditor suggests that penalties be applied retroactively.
- The amount of \$28, 0276 minus \$10,777 (already paid in 2003) leaves a balance of \$10,749 which represents less than 5% of the rent paid for the period covered by the audit and less than 0.3% of the total remitted by YGM to the city for the period covered by the audit. Notwithstanding the fact that the full amount has already been paid, the amount cited in the audit report is relatively small in comparison to the amounts YGM remitted to the city.
- The issue that remains is the “interest” calculated by the auditor of \$40,894, most of which includes the \$18,919 assessed on an unpaid amount of \$1756 due from 2002 discussed earlier. YGM believes that no “interest” or late charges should be applied.
- YGM has never received credit for payments made during the period when the kitchen was inoperable. YGM never received credit for “over payments” identified in the audit report.

Recommendations

Most of the recommendations are acceptable because all improve the operations at Lincoln. YGM supports such efforts.

YGM does however object to the following:

Require Yugi to maintain sufficient detailed records such as player’ names and rates charged, on the tee sheet, or on other documents, to allow the department to verify that Yugi is correctly remitting tournament fees to the department.

- First, Yugi correctly remits tournament fees to the department.
- Second, all tournaments are currently noted on tee sheets noting the tournament rate

- Third, tournaments are organized by various organizations which often organize their own pairings. Since tournaments block out tee times, all at the same rate, noting players' names have little to do with tournament fees. If 20 players play in a tournament, all pay the same rate regardless of the name of the player. Often the order of play, the pairings, changes the day off or even at the time of check in. YGM believes it is important to note on tee sheets the full complement of tournament players and the rate charged as is the current practice.
- This recommendation to note players' names is unnecessary and not reflective of general golf course operations.

Require Yugi to record resident card numbers for all players receiving a discount on the daily tee time sheets

- YGM has no problem recording resident card numbers on tee sheets if the tee sheet is redesigned. YGM recommends however, that a scanner/register be installed at Lincoln similar to the mechanism used at Harding Park so that resident cards can be simply scanned when green fees are collected and the green fee register updated.

Require Yugi to charge a player the \$1 reservation fee if the player reserved tee time using the automated telephone system

- YGM has no problem charging and collecting the \$1 reservation fee when properly noticed by the City. YGM believes the Department should issue procedures in the event that players still refuse to pay the fee. YGM believes it has several options: a) deny the player the right to play thereby losing a potential green fee, b) cite the player, request that the player relinquish their resident card and allow the player to play, c) allow the player to play and report the name of the player to the department so that the department can attempt to collect the \$1 reservation fee, d) allow the player to play and remind the player that next time a fee will be imposed, noting on the tee sheet the incident. Given the lack of play at Lincoln, a resident might make a reservation using the automated reservation system, show up, cancel and then walk on 20 minutes later to avoid paying the \$1 additional fee. YGM recommends that green fees be adjusted to cover the costs of the automated system and included in all green fees regardless how a reservation is made.

Instruct Yugi on the importance of maintaining in a secure place all its records.

- YGM understands the importance of security. We wish the City would help secure Lincoln Park to avoid vandalism to the golf course that has occurred several times over the past few years. During daylight hours, dog walkers, tourists and the general public have easy access to Lincoln Park. Despite signs and YGM golf marshals, securing the golf course is almost impossible. When the course was

vandalized, revenue was lost. We hope the city understands the importance of security as it pertains to maintenance of the golf course.

Because of the complete lack of records for the restaurant and bar operations, the department may wish to consider requiring Yugi to have an independent financial audit conducted each year of its business operations for the pro shop and restaurant and bar

- This recommendation is unwarranted. YGM maintains records and conducts a financial review. We have conducted numerous analyses and test to ensure that proper business practices are followed. The auditor seems to suggest more action than is necessary

Inform Yugi whether the department will allow it to continue accepting green fees payments via credit card. If allowable, the department should establish procedures for the prompt payment of those revenues.

- The system in place at Lincoln has been operational for over 10 years. The department has historically allowed reconciliation of credit card transactions at the end of every month since the city does not pay for credit card fees. YGM would appreciate clarification of this issue. If only cash is accepted, those patrons who do not have sufficient cash to pay for green fees will be turned away. YGM would respectfully remind the auditor and the department that Lincoln is currently underutilized. Increasing play might seem to be more prudent than establishing policies that limit play. Harding Park Golf course accepts credit card payments for which the city pays the credit card fees. Why not implement the same procedure at Lincoln.

Require Yugi to pay \$58,811 in rental and late fees for not meeting the minimum annual rent requirements. In addition, the department should require Yugi to submit a reconciliation of the minimum annual rent after the end of the fiscal year.

- As stated in the report, YGM does not believe it should be penalized retroactively for payments made in accordance with the lease and based on verbal communications between the department and YGM accountants. All payments have been made. The dispute is over the extraordinary late fees assessed retroactively. YGM has never received any previous notice that late fees were to be charged or given any notice to correct the situation.
- The lease allows YGM to conduct reconciliation on the basis of YGM fiscal year, which is a calendar year. The auditor seems to suggest that reconciliation be conducted at the end of the city's fiscal year.

Determine whether it should credit Yugi \$1,223 in overpaid rent due to calculating rent based on gross revenues not net of taxes, despite not having adequate records.

- YGM maintains adequate records. YGM has informed the auditor how calculations were made. YGM is not aware of calculating rent based on gross revenues but welcomes the rent credit.

Conclusion

YGM assumed the existing lease under assignment when Arnold Palmer Golf Corporation abruptly pulled out of all city golf courses. YGM was asked by the City to step in based on its familiarity with Lincoln, its processes and procedures. YGM essentially bailed out the City when Palmer abandoned its interest in Lincoln.

YGM agreed to the assignment based on the fact that the city indicated that an RFP process was soon to be initiated and new lease arrangements negotiated. YGM in a joint venture with CourseCo, one of the premier municipal golf course operators in Northern California submitted its bid in response to the Lincoln Park RFP. The department subsequently abandoned the RFP and did not award a contract.

YGM assumed that the assignment, under the month-to-month agreement, would have been modified or changed by now. Terms were accepted based on that assumption and statements by the City that the assignment was only until the RFP process was completed.

Now YGM is finds itself subject to an audit that uses as a basis a previous audit performed many years ago when Lincoln was operated by a different operator. An audit that bases many of its findings on a lease agreement and memorandum of understanding that most accept as out of date and not reflective of current practices and procedures. ⑪

YGM, as department staff have stated publicly, has performed admirably given the circumstances of the assignment. YGM is not responsible for the general decline in the number of rounds played at Lincoln due to deteriorating conditions and lack of maintenance. Rather, YGM has kept Lincoln open for the enjoyment of golf for San Franciscans. YGM has maintained operations at Lincoln despite the fact that revenue has declined precipitously because it believes in the sense of community that surrounds this venerable course and believes in making available a golf experience for the many San Franciscans who see Lincoln as a shining example of community golf.

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CONTROLLER'S FINANCIAL AUDITS DIVISION COMMENTS ON THE RESPONSE FROM YUGI GOLF MANAGEMENT

To provide clarity and perspective, we are commenting on the response to our audit report from Yugi Golf Management (Yugi).

The Controller's Financial Audits Division (division) disagrees with Yugi that the division does not have the expertise to conduct an audit of Yugi's operations of Lincoln Park Golf. The division audited the management company that operated Lincoln Park Golf prior to Yugi assuming the operations and the division did not have any problems in obtaining the necessary information from that company to complete the audit. Further, the division has conducted audits of other city golf course concessions and is currently completing an audit of Harding Park Golf Course. Again, the division has not had any problems in obtaining the information necessary to complete these audits. By contrast, Yugi did not produce the necessary records for us to complete the concession audit and because of the associated increase in risk, we could not conclude whether Yugi properly accounted for all its concession revenues, and correctly paid the Recreation and Park Department (department) the rent that was due.

The division has thoroughly discussed and reviewed the findings in the report with Yugi and its representatives and the department. The division finds it disappointing that Yugi continues to misrepresent, misinterpret, and misunderstand the results of our audit. The division fully stands by the results of its audit of Yugi.

We also have specific comments on some of Yugi's responses. The following numbered responses correspond to the numbers we have placed in the response from Yugi.

- ① Unfortunately, Yugi does not appear to understand the concept of accounting records. The only "records" provided by Yugi or its accountant were monthly concession revenue reports. These reports are used by the accountant to prepare the payment statements required by the department and only showed the total sales from Yugi's restaurant and bar as reported by Yugi. To verify whether Yugi correctly reported the monthly total sales, we asked to see the supporting accounting records, such as daily cash register tapes, prenumbered restaurant order tickets, and daily cash receipt reconciliations. Yugi did not provide us any of these records, and without these records, we

cannot conclude whether Yugi correctly reported the revenues from its restaurant and bar.

- ② We believe “poorly” describes the situation when we could not verify more than \$9,000 in credit card revenues allocated for green fees in a sample of 27 days of operations, and could not reconcile Yugi’s cash collections to its bank records. During the fieldwork, Yugi stated that it would submit a written explanation of the methods it used to allocate cash and credit card transactions. Yugi did not submit any explanation and without that explanation, we could only conclude that Yugi accounted poorly for its credit card transactions.
- ③ Yugi fails to recognize and understand that our audit period is as of December 31, 2004. As of that date, Yugi had not paid the minimum rent due for the period under review. If Yugi made any payments after this date, our audit would not identify such payments. Further, we would hope that Yugi took sufficient due care before accepting the assignment of the lease for Lincoln Golf Park Course. Yugi had every opportunity to take any exception to terms of the lease or the memorandum of understanding. Since Yugi took the assignment, it should have been well aware of the late payment fees. As we state in our report, we discussed the amount of the late payment fee with the department and its city attorney. Nevertheless, we understand that the department is discussing with Yugi the percentage it will charge for late payments.
- ④ As we state in the report, the importance of the log books was to assist us in verifying the number of players that actually participated in the tournaments held by Yugi. In this way, we could determine whether Yugi correctly reported total tournament revenues. The text has been clarified to indicate that such information would assist us to verify total tournament revenues.
- ⑤ Yugi continues to fail to understand the importance of keeping adequate records. If it did allow for more players, then without a record of the number of players that actually participated in the tournaments, the department would have little assurance that Yugi correctly reported all the revenues collected from the tournament. We believe our recommendation to the department to develop written policies and procedures to account for tournament revenues will assist all the city golf courses.

- ⑥ Yugi is misstating the facts. Yugi could not provide any written documents showing that Recreation and Park had approved the lower rates charged by Yugi. Further, while a department representative believes the department may have approved a lower rate, he could not find any written documents to support this. As we have indicated to Yugi throughout the conduct of this audit, verbal assertions are not sufficient audit evidence. Finally, as we state in the report, neither Yugi nor the department has the right to reduce tournament rates set and approved by the department's commission. Yugi should have sought and obtained written approval from the department's Commission to reduce any rates.
- ⑦ The department is aware of Yugi's assertion that the armored car service did not arrive at regular times each weekday. Since the department is paying for this service, we understand that the department will be following up with the armored car service to determine if the service can make the required daily service calls at a set time each day.
- ⑧ As we stated previously, we do not consider the monthly concession revenue reports submitted to the department to be adequate supporting accounting records. To verify whether Yugi correctly reported the monthly total sales, we asked to see the supporting accounting records, such as daily cash register tapes, prenumbered restaurant order tickets, and daily cash receipt reconciliations. Yugi did not provide us any of these records, and without these records, we cannot conclude whether Yugi correctly reported the revenues from its restaurant and bar.
- ⑨ We are somewhat surprised that Yugi believes that a "reasonableness" test is sufficient to verify revenues. We do not believe any prudent business would rely on reasonableness to determine whether it is accurately accounting for its revenues or expenses.
- ⑩ Yugi has had every opportunity to examine our audit workpapers. When we held our exit conference in February 2006 with Yugi and its representatives, as well as with the department, Yugi had been given a draft of our report and we discussed the findings. At no time at the meeting, or even during the conduct of the fieldwork, did Yugi indicate it wanted to examine any of the workpapers connected with the audit.

- ⑪ Yugi again appears to misunderstand what it accepted by taking the assignment to operate Lincoln Park Golf Course. The lease and memorandum of understanding are legal documents and Yugi must meet the terms of those agreements. Yugi had every opportunity to negotiate with the department to change some of those terms if it disagreed with the terms. However, Yugi accepted the assignment without requesting any changes. Yugi also has had every opportunity since it accepted the assignment in 2001 to work with the department to agree to change any of the terms through written formal agreements. However, Yugi has not done so, and only asserts that it received verbal approvals to deviate from the written terms of its agreements. What Yugi fails to understand is that it is good business practice to obtain written documentation for those assertions so that it can prove that the department approved any changes in the way Yugi operated under its agreements.

cc: Mayor
Board of Supervisors
Civil Grand Jury
Public Library

